THE FINANCES OF THE DISTRICT OF COLUMBIA

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Before 1871 Congress took little interest in the development of the federal capital, and the several municipal corporations existing within the District of Columbia were too weak financially for the improvement of the territory which they occupied.[1] Under the territorial government (1871-1874) Congress contributed more freely than ever before towards the support and development of the federal district, but its appropriations were based upon no definite plan. When the territorial government was abolished in 1874, Congress took over the financial administration of the District of Columbia, assumed full responsibility for its debt and for all necessary current expenses which should not be met by local taxation.

A bill presented in 1876 for the permanent government of the District of Columbia contained the provision that forty per cent of its expenses should be defrayed by the general government. By the act of 1878, under which the District of Columbia is now governed, the ratio was placed at one-half, and since 1878 the United States Government has borne one-half of the expenses of the District, as approved by Congress in its annual appropriation acts. This rule is based upon the fact that about one-half of the value of real property in the District of Columbia belongs to the United States Government and is not taxed. The half-and-half rule has not, however, been observed in all cases. It has been customary for Congress to place upon the District of Columbia the whole burden of paying for street extensions, where the cost of such extensions is not borne by the property benefited. A law of 1906 regarding street extensions specifically provides that "if the total amount of the damages awarded by the jury and the costs and expenses of the proceeding be in excess of the total amount of the assessments for benefits, such excess shall be borne and paid by the District of Columbia."[2]

[1]The cities of Washington and Georgetown and the county of Washington. The town and county of Alexandria were retroceded to Virginia in 1846.

[2]34 Statutes at Large, 151, 1128, 1157.

Apart from the contributions from the federal treasury, the receipts of the District of Columbia from taxes and other revenues, for the fiscal year ending June 30, 1907, were nearly six and one-half million dollars. This amount was made up principally of the following items:

Real property tax	$3,650,805.36
Personal property taxes	752,492.59
Licenses (business), including dog tax and insurance.	679,972.73
Industrial enterprises	569,566.34
Fees	73,150.31
Fines	107,838.46

By a curious system of bookkeeping required by law, special assessments are not treated primarily as revenue, and it is impossible to know the exact amount received from this source, but during the fiscal year ending June 30, 1907, special assessments were levied to the amount of $220,871.59.

Real property and tangible personalty are taxed in practically the same manner, and may be discussed together. Tangible personalty is required to be assessed at its fair cash value; real property at not less than two-thirds of its true value, which is interpreted to mean, at two-thirds of its true value. The rate for both real property and tangible personalty is one and one-half per cent on the assessed valuation. The terms "fair cash value" and "true value" are interpreted to mean market value under normal conditions. Before 1892 the assessors interpreted these terms to mean "what property would bring at forced sale under adverse circumstances."[3]

The following personal property is exempt from taxation: (1) personal property of all library, benevolent, charitable, and scientific institutions incorporated under the laws of the United States or of the District of Columbia, and not conducted for private gain; (2) Libraries, school books, wearing apparel, and all family portraits; (3) Household and other belongings, not held for sale, to the value of one thousand dollars, owned by the occupant of any dwelling house or other place of abode, in which such household and other belongings may be located.[4] It is difficult to say just what real property is exempt from taxation. Of course no property of the United States or of the District of Columbia is taxable. All

[3]Fifty-second Congress, First Session, H. R. Reports 1469.
[4]32 Statutes at Large, 620; 33 Statutes at Large, 564.

churches, institutions of public charity, public library buildings, school houses not used for private gain, and cemeteries not conducted for a profit, are exempt from taxation upon all their property not used for business purposes or to secure an income. In addition, there are numerous organizations of a charitable, religious, or educational character exempted from taxation by special acts of Congress.[5] In 1903 the assessor estimated that 51.80 per cent of the value of real estate in the District of Columbia belonged to the United States, 0.95 per cent to the District of Columbia, and that 2.65 per cent was exempted from taxation under general or special laws regarding educational, religious, charitable, and other institutions, so that only 44.60 per cent of the real property was actually taxed.

For the assessment of real property and of tangible personalty there are an assessor and five assistant assessors, all of whom are irremovable except for inefficiency, neglect of duty, or malfeasance in office.[6] Three of the assistant assessors are designated to form a board for the assessment of real property, and also an excise board for the issuance of liquor licenses and the enforcement of the laws regarding the sale of liquor. The assessor is ex-officio chairman of these boards. A new assessment of real property is made once every three years. Within the period between the triennial assessments, the assistant assessors add to the assessment roll other property which has become subject to taxation or which may have been missed at the time of the regular assessment.[7]

The three assistant assessors together, "from actual view and from the best sources of information within their reach," make their valuations of each separate tract of real property, and estimate separately the value of all improvements on each tract. For their guidance a daily transcript is made and entered on the records of the assessor, of property transferred by deeds and wills filed in the offices of the recorder of deeds and the register of wills.[8]

Two of the assistant assessors form a board of personal tax appraisers, of which the assessor is ex-officio chairman. Tangible personalty is required to be returned by its owners on detailed schedules of the usual form. The assessor annually gives notice

[5] D. C. Compiled Statutes, 519-521; 32 Statutes at Large, 616.
[6] 32 Statutes at Large, 617, July 1, 1902.
[7] 28 Statutes at Large, 282, August 14, 1894.
[8] 30 Statutes at Large, 1376, March 3, 1899.

by publication when the personal property schedules are ready for distribution and may be had at his office. Such schedules are to be made out and returned within thirty days after the published notice of their being ready for distribution. It has been the experience of the appraisers that little more than one-half of those liable to taxation on personal property make returns on the regular schedules.[9] Where returns are not made, the appraisers, "from the best information they can procure,"[10] make an assessment and add thereto a penalty of twenty per cent. The personal tax appraisers have authority to reject any returns and to reassess personal property from examination, or upon the basis of other definite information which they may be able to obtain.[11] By means of inspectors who personally examine houses and their furnishings and other personal property, the personal tax appraisers think that they succeed in assessing practically all taxable personalty, and that such property is assessed at approximately its true value.

The assessor and the five members of the board of assistant assessors together constitute a board of equalization and review of real estate assessments, and a board of personal tax appeals; an appeal lies to them from every assessment made by the real estate assessors and the personal tax appraisers. The same persons thus sit in judgment on appeals from their own assessments.

All taxes on real and personal property are payable in the month of May of each year, but may be paid in two equal instalments, the first in November, and the second in May. If taxes are not paid by the first day of June, a penalty of one per cent per month is imposed.[12] Personal taxes remaining unpaid after this date are collected by distraint and sale of personal property, or in default thereof, by the sale of real property.[13] The payment of taxes on real property is enforced by the sale of the property upon which the taxes are delinquent.[14]

Before 1893 there was much criticism of real property assess-

[9] Report of Commissioners for 1905, I, 73.

[10] This clause is interpreted to require definite information as a basis for assessment, obtained either by actual view or otherwise. Assessor's Report for 1907, p. 8.

[11] 32 Statutes at Large, 617, July 1, 1902, Report of Commissioners for 1903, p. 64.

[12] 32 Statutes at Large, 33, February 14, 1902.

[13] 32 Statutes at Large, 621; 33 Statutes at Large, 564.

[14] 32 Statutes at Large, 632, July 1, 1902.

ments, which were triennially made by temporary employees. As a remedy the Commissioners of the District of Columbia proposed the creation of a board of permanent assessors, and this reform was definitely effected by the law of August 14, 1894.

However, the assessment of real property still remains to a large extent unsatisfactory. A congressional committee which examined the assessed values of real property in 1892 endorsed the statement that business property was assessed at about fourteen per cent of its true value, small houses at from seventy to eighty per cent of their value, while land held for speculative purposes was assessed at about ten per cent of its value. This was under the régime of temporary assessors employed for only a few months in each three-year period, and much fairer valuations have unquestionably been obtained by the permanent board of assessors. However, a comparison of assessment values with selling prices shows a great undervaluation of unimproved suburban property. For the property condemned by the United States Government for the Senate office building, juries awarded the owners from two to three times the assessed valuation. But this can hardly be considered fair evidence, for everyone knows that high awards are usual in condemnation proceedings. But other evidence is easily at hand, and a comparison of selling prices with valuations for taxation clearly shows that much real property is undervalued. For example, the forty-seven "flat buildings" or apartment houses in Northwest Washington are assessed at $725,800, while two or three of them alone are easily worth this amount.

Until 1901 the District of Columbia had the general property tax almost without modification, and the assessors made the attempt to reach both tangible and intangible personalty. In their report for the year 1881 the Commissioners called attention in strong terms to the failure of the tax system with reference to intangible personalty: "That the personal tax law now in force has not been successful as a revenue measure, experience has clearly demonstrated. Its tendency is to discourage business and honest returns of personal property for taxation; to enhance the local rates of interest on money; to encourage the investment of local or resident capital in non-taxable securities; and to give the control and profit of the local money market to non-resident capitalists." The assessor's report for 1882 called the whole system a failure and said that for

that year hardly any intangible property had been returned for taxation.[15] A table of assessments at intervals of four years from 1877 to 1901, will show the failure of the general tax on personal property much more clearly than can be done in words:

1877	$15,429,873
1881	10,895,712
1885	12,795,934
1889	11,728,672
1893	12,045,290
1897	9,532,851
1901	12,567,084

The law for the assessment of personal property became practically a dead letter. Under the law of 1877 providing for the assessment of personal property, returns were to be made by property owners upon blanks furnished by the assessor. If the returns were not made within a specified time the assessor was required to make an assessment from the best information which he could procure, and to add thereto fifty per cent as a penalty. Under the direction of the commissioners, the assessor in 1901 attempted to enforce this law, but the matter was brought before the Supreme Court of the District of Columbia, which declared that the law of 1877 had been virtually repealed by subsequent congressional enactments.[16] With the failure of the law of 1877 further legislation regarding taxation immediately became necessary, and Congress, by the law of July 1, 1902, introduced the first radical departure from the system of the general property tax. This law, as amended on April 28, 1904, is now in force.[17]

What is now called a personal property tax in the District of Columbia is really a combination of several distinct taxes. The taxation of tangible personalty has already been mentioned. Dealers in general merchandise are required to pay a tax of one and one-half per cent upon their average stock in trade for the year preceding their tax returns.

A fairly well-defined system of corporate taxation was established by the laws of 1902 and 1904. National banks, incorporated

[15] Report of Commissioners for 1882, p. 53.
[16] Report of the Commissioners for 1902, p. 52.
[17] 32 Statutes at Large, 617; 33 Statutes at Large, 563.

banks, and trust companies are required to pay a tax of 6 per cent of their gross earnings; incorporated savings banks, 4 per cent of their gross earnings, less the interest paid to their depositors; building associations, 2 per cent of their gross earnings; street railways, 4 per cent; gas companies, 5 per cent; electric light and telephone companies, 4 per cent; fidelity, guaranty, and title companies, 1½ per cent of their gross earnings; insurance companies 1½ per cent of their premium receipts. These gross receipts and premium receipts are returned by the corporations upon the personal property assessment blanks in the same manner as is tangible personalty. In addition to these gross receipts taxes the law specifically provides that real estate owned by national and other incorporated banks, and by trust, gas, electric light, and telephone companies shall be taxed as is other real estate. Real estate of street railways is also subject to the regular real property tax. The most remunerative of the gross receipts taxes are those on public service corporations; in 1907 about eleven per cent of real and personal property receipts were derived from this source.[18]

The capital stock of corporations organized in, or for the purpose of transacting business within the District of Columbia, other than those provided for above or exempted from taxation by law, is appraised in bulk at its fair cash value by the board of personal tax appraisers, and is subject to a tax of one and one-half per cent per annum upon such assessed valuation, but from the value of such capital stock is first deducted the assessed value of all real estate in the District of Columbia which is separately taxed against the corporation. The law further provides that none of its provisions regarding the taxation of capital stock of corporations shall be "construed to include business companies which, by reason of or in addition to incorporation receive no special franchise or privilege; but all such corporations shall be rated, assessed, and taxed as individuals conducting business in similar lines are rated, assessed, and taxed."[19] As is seen above the law for the general taxation of corporations is very ambiguous. It would seem to depend entirely upon the will of the personal tax appraisers whether corporations shall be taxed on their capital stock or in the same manner as individuals, for few but public service corporations (which are

[18]Report of the Commissioners for 1907, p. 22.
[19]33 Statutes at Large, 564.

otherwise provided for) receive any special franchise or privilege by virtue of their incorporation.

This brief description of taxation of corporations in the District of Columbia indicates its patchwork character. It is partly a tax on valuable franchises; partly a heavy and unequal tax on businesses which derive no special benefit from incorporation. For example, trust companies, incorporated savings banks, and building associations, engaged to a large extent in similar business operations, are taxed respectively six, four, and two per cent on their gross receipts. It should be said, however, that the Commissioners of the District have for several years recommended a readjustment and reduction of tax rates on banks and similar institutions, and an increase of rates upon the valuable franchises of public service corporations.[20]

An analysis of the revenue derived from the so-called personal tax is of interest. For the fiscal year 1906-07 the total personal tax levy[21] amounted to $805,688, of which the estimated revenue from gross receipts taxes was $495,181.94, leaving as the estimated yield from tangible personalty and from general corporate taxation $310,506.06. Deducting the gross receipts taxes, the revenue derived from tangible personalty and general corporate taxation represents an assessed valuation of about twenty million dollars. Of this assessed valuation perhaps the greater part represents store fixtures and business stock in trade. The generous exemption of household property to the value of $1,000 leaves the greater part of such personalty free from taxation, for Washington has not yet become pre-eminently the home of rich people.

The sources of local revenue, aside from real and personal property taxes, may be briefly considered. Receipts from licenses form the third most important item of District revenues, but the amount credited to this source is increased by about $81,000 through the plan of classing the tax on insurance premiums with license taxes. There is an elaborate system of business licenses covering practically everything from a slot machine to a private bank. Some of these license taxes are no more than small fees imposed for police purposes, and for most businesses they yield but a small amount of

[20]Report of the Commissioners for 1907, p. 22.

[21]Report of Assessor for 1907. The figures on page 138 of this article represent the total amount collected at the end of fiscal year; those here used are based upon the tax levy, not all of the taxes levied having been collected at the end of the year.

revenue. Much the most important single item is that of liquor licenses, which yield nearly seven-tenths of the total revenue from this source. The licensing of wholesale and retail liquor dealers and the regulation of the liquor traffic are placed under the control of an excise board, which is composed of the three members of the board of assistant assessors of real property. The revenue derived from fees is comparatively small, the most important items being judicial fees, fees for building permits, and payments for the services of the public surveyor. The receipts from fines imposed by the police court do not constitute a large amount.

The important industrial enterprises of the District of Columbia are its water system, markets, and wharves. For the fiscal year ending June 30, 1907, the receipts of the water works amounted to $535,950.92, and the expenditures were $510,466.88. The system has uniformly been managed with the view of furnishing water at the lowest rate which would make the water works self-supporting. In 1902 the annual surpluses had formed a fund of several hundred thousand dollars which has since then been used for the improvement of the service. The revenues of the water works have been sufficient to provide for the maintenance and betterment of the service, but not sufficient to defray the cost of extensive permanent improvements, such as aqueducts and filtration plants; that is, they have been sufficient for maintenance but not for the extension of the service. The revenue derived from the rental of markets and wharves is comparatively small, but is more than sufficient for the maintenance of the property rented.

With regard to special assessments it is necessary to speak more at length. For the construction of sidewalks and the improvement of alleys one-half the cost is assessed upon abutting property, on the basis of linear frontage. The whole cost of service connections with water mains and sewers is assessed against the property benefited.[22] For the laying of water mains abutting property is assessed at one dollar and twenty-five cents per linear front foot, and for the laying of service sewers an assessment of one dollar per linear front foot is made.[23]

For the opening, widening, or extension of alleys, and the extension of streets and avenues, a judicial proceeding is provided

[22] 28 Statutes at Large, 247, August 7, 1894.
[23] 33 Statutes at Large, 244, April 22, 1904.

for the condemnation of property and the assessment of benefits. The Commissioners institute proceedings before the Supreme Court of the District of Columbia. The court, after proper notice, appoints a jury of five disinterested freeholders. This jury assesses the value of property condemned, and the benefits accruing to property from the opening or extension of a street or alley. The court can set aside the award of this jury, either upon the complaint of property owners or upon its own motion, but when confirmed such awards become liens upon the property affected.[24]

In some of its earlier laws for street extensions Congress provided that the amount of benefits assessed should not be less than one-half the total damages awarded for the condemnation of land.[25] This provision was held unconstitutional by the Court of Appeals of the District of Columbia, as a departure from the rule that special assessments should be apportioned only with reference to the amount of special benefit, but the law was sustained, on appeal, by the Supreme Court of the United States.[26] Other laws attempted to impose at least one-half the cost of street extensions upon the property owners benefited by providing that the Commissioners of the District of Columbia might reject the findings of juries if the aggregate amount of benefits assessed were less than one-half the amount of damages awarded,[27] but this provision was ineffective. The present law simply provides that the excess of damages over benefits shall be borne by the District of Columbia. As a result the local government pays much the greater part of the cost of street extensions. No property except that of the United States or of the District of Columbia, and property owned by foreign governments for legation purposes, is exempt from assessments for improvements.[28]

In concluding the discussion of the revenues of the District of Columbia it may be said that the several taxes have been imposed almost without reference to each other, and that no effort has yet been made to develop a uniform system of taxation. The District of Columbia is in an excellent position to develop a model system of local revenue. Municipal corporations in the states labor under

[24] District of Columbia Code, Sec. 1608-1608l; 34 Statutes at Large, 151.
[25] 30 Statutes at Large, 1344.
[26] Davidson *v.* Wight, 16 App. D. C., 371; Wight *v.* Davidson, 181, U. S. 371.
[27] 31 Statutes at Large, 665, June 6, 1900.
[28] 32 Statutes at Large, 596, 961.

the difficulties arising from the confusion of state and local taxes, but here there is only one taxing body,[29] and the financial situation has no complications except those arising from the close relationship existing between the United States and the District of Columbia.

The Budget and Budgetary Procedure

The fiscal year of the District of Columbia begins on the first day of July. Preliminary estimates of expenditures are made by the several offices of the District government almost one year before the beginning of the fiscal year for which appropriations are to be made. These estimates are sent to the executive office of the District of Cloumbia, and are revised by the Commissioners, who frequently make substantial reductions in them. However, the estimates of certain departments of the local government are not subject to change by the Commissioners. The school law requires that the board of education annually on the first day of October transmit its estimates to the Commissioners, who must submit the estimates with such recommendations as they deem proper.[30] The Commissioners have, under protest from the board of education, placed their own revised estimates for schools in the regular book of estimates, and submitted separately the estimates of the board of education.[31] The Commissioners are required by law to transmit the estimates of the board of charities without change.[32] Among other items which appear in the District of Columbia estimates and appropriations, but which are not subject to revision by the Commissioners, are those for the filtration plant, aqueduct, militia, and sinking fund. Besides items in the District of Columbia estimates not subject to revision by the Commissioners, there are items in other appropriation bills which relate to the District, and one-half of the expense of which is borne by the District of Columbia; such, for example, are the expenses for parks, and for the Supreme Court and Court of Appeals of the District of Columbia, appropriations for which are made among the legislative, executive and judicial appropriations of the United States. From this state-

[29]It is true that in the District of Columbia the federal customs and internal revenue taxes are in force, but these taxes do not affect the sources of local revenue.

[30]34 Statutes at Large, 316.

[31]House Hearings on District of Columbia appropriation bill for 1908, p. 119.

[32]31 Statutes at Large, 664.

ment it clearly appears that there is no one central authority in the District which has power to prepare estimates.

The Commissioners submit their estimates to the Secretary of the Treasury during the month of October of each year, together with a statement of estimated revenue from local sources, exclusive of the water department.[33] The statement of estimated revenues is made up in September of each year by a committee consisting of the auditor, the assessor, and the collector of taxes. By law it is made the duty of the Secretary of the Treasury to approve, disapprove, or suggest changes in the District estimates, as he may think the public interest demands;[34] but the Secretary of the Treasury can know little or nothing as to the specific needs of the District of Columbia, and simply transmits the estimates of the Commissioners to Congress, without suggestions, or with a recommendation that the total estimates be reduced to an equality with the total estimated revenues.

With respect to the form of estimates and appropriations it should be said that they are as a rule detailed and specific, and that there are few lump sum appropriations. The classification now used is susceptible of improvement, but is made obligatory by a provision of law, enacted in 1902, which requires that hereafter "the estimates for expenses of the District of Columbia shall be prepared and submitted each year according to the order and arrangement of the appropriation Act for the year preceding, and any changes in such order and arrangement and transfers of salaries from one office or department to another desired by the Commissioners may be submitted by note in the estimates."[35]

The congressional machinery for the consideration of the District of Columbia appropriation bill is not the most satisfactory. The House and Senate committees on the District of Columbia handle all general legislation relating to the District, including measures which relate to taxation. The appropriation bill, however, is considered by the House and Senate committees on appropriations.

[33]Estimates for the water department appear in the estimates of the District of Columbia, but appropriations for this service are payable wholly from the revenues of the water department.

[34]Compiled Statutes of the District of Columbia, 204.

[35]32 Statutes at Large, 616, Sec. 4, July 1, 1902. The financial accounts must necessarily follow the same classification as that used in the appropriation acts, and until Congress permits the adoption of a different classification of appropriations it will be impossible for the District of Columbia to prepare its accounts in accordance with the approved plans for uniform municipal accounting.

For several years it has been the practice in the Senate that the chairman of the committee on the District of Columbia should be a member of the committee on appropriations and chairman of the District of Columbia sub-committee of the latter committee; but in the House there is no such informal relationship between the committee on appropriations and the committee on the District of Columbia. Both House and Senate committees on appropriations, by means of sub-committees, hold hearings on the District of Columbia appropriation bill; the commissioners, other officials, organizations, and individuals appear at these hearings to explain estimates and urge appropriations. These hearings are as a rule necessarily brief, but now and then they are very exhaustive.[36] As appropriation bills must originate in the House, the House hearings are always held first, and the Senate hearings are on the appropriation bill as passed by the House. As a rule the Senate materially increases appropriations approved by the House; and the House then concurs in most of the Senate amendments.

In the congressional hearing and consideration of District appropriations there is little consideration of the equilibrium of revenues and expenditures. The revenue item is presented, it is true, but appropriations are urged, and there is little consideration given to the development of a well-balanced system of local finance. The appropriation committees of the House and Senate probably know more about the affairs of the District of Columbia than any other committees of Congress, but these committees do not and cannot give to the District finances the careful consideration which they deserve.

It would seem that this careful consideration should be given to the estimates before they reach Congress. This might be accomplished by the establishment of a board similar in character to the board of estimate and apportionment of New York City, which should receive estimates for all services of the District, and subject them to careful investigation and consideration, giving the taxpayers and other interested persons an opportunity to be heard. Carefully-prepared and well-considered estimates, presented by such a body, would have much greater weight with Congress than estimates prepared under the present system.[37]

[36]As, *e. g.*, the House hearing of 1906.

[37]It has been suggested that an improvement might be made in the congressional machinery for considering the affairs of the District of Columbia by con-

As has been said, appropriations are as a rule detailed and specific, and there is little elasticity in the budget of the District of Columbia. However, for a number of years Congress has annually provided an "emergency fund" of eight thousand dollars, "to be expended only in case of emergency, such as riot, pestilence, public insanitary conditions, calamity by flood or fire, and of like character, and in all cases of emergency not otherwise sufficiently provided for."[38] The specific appropriations cannot be exceeded, and the budgetary inelasticity makes necessary the annual appropriation of further amounts to cover deficiencies of appropriations. For the fiscal year 1905-06 there were, besides the regular appropriation act of March 3, 1905,[39] additional appropriations for the District of Columbia in the urgent deficiencies act of February 27, 1906, in the additional urgent deficiencies act of April 16, 1906, and in the deficiencies appropriation act of June 30, 1906.[40]

The United States Treasury is the fiscal agent of the District of Columbia. The local revenues are paid into the federal treasury to the credit of the United States, and no funds in the treasury are credited to the District government. Appropriations are made payable one-half from the revenues of the District of Columbia, but there is no segregation of funds, although an account is kept of revenue derived from local sources. Money is paid from the treasury to the disbursing officer of the District of Columbia, upon the requisition of the Commissioners, each requisition specifying the appropriation upon which it is drawn. No appropriation can be exceeded either in requisition or expenditure.[41] All balances of appropriations not expended within two years after the close of the fiscal year for which they were made, are covered back into the treasury of the United States, one-half to the credit of the United States and one-half to the credit of the District of Columbia.[42]

Unless otherwise specified by law all accounts for the disburse-

centrating all such matters in the hands of a joint committee of the House and Senate. Theoretically this would be better than the present arrangement, but few senators and representatives could be persuaded to assume the heavy duties which membership of such a committee would involve. Members of Congress must look after the interests of their constituents, and naturally prefer to be on committees in which their work will bear a close relation to the interests of their states.

[38] 34 Statutes at Large, 1147, March 2, 1907.

[39] 33 Statutes at Large, 883.

[40] 34 Statutes at Large, 31, 119, 640.

[41] 22 Statutes at Large, 470; 30 Statutes at Large, 526.

[42] 25 Statutes at Large, 808.

ment of appropriations for the District of Columbia are audited by the auditor of the District of Columbia before being transmitted to the accounting officers of the federal treasury.[43] However, there are so many exceptions to this rule that the accounts of the auditor of the District of Columbia do not show the total expenses of the district, and cannot do so until all district appropriations are made payable through the disbursing officer of the District and subject to local audit.[44] Accounts of the District of Columbia, after being approved by the auditor of the District, are also passed upon by one of the auditors of the Treasury Department before being paid.

From the safeguards with reference to its financial affairs, it is clear that the District of Columbia has little opportunity to accumulate a floating debt. Practically the only floating debt which the District ever has is that arising from judgments of courts and from other small liabilities which could not be anticipated and included in the appropriations for the year, such indebtedness remaining unpaid until provision is made for it by Congress in the appropriation act for the succeeding year. The Commissioners cannot affirmatively incur liabilities in excess of appropriations actually made.

Extraordinary Expenses and Unfunded Debt

From 1880 to 1900 the finances of the District of Columbia were in a prosperous condition, and there were frequent annual surpluses. Since 1900 a number of great improvements have been undertaken at a total estimated cost of $16,734,425:[45] It has been impossible for the District revenues to bear currently the burden of these enterprises, and in 1901 Congress authorized the Secretary of the Treasury to advance, on the requisition of the Commissioners of the District of Columbia, such amounts as might be necessary to meet local expenses authorized by Congress, such advances to be reimbursed to the federal treasury out of the revenues of the District of Columbia within five years, with interest at the rate of two per cent per annum. While the extraordinary expenses have been continuing, new advances have been necessary, and reimburse-

[43] 30 Statutes at Large, 526; June 30, 1898.
[44] Report of Auditor of the District of Columbia for 1907, p. 4.
[45] Report of Commissioners for 1907, p. 6.

ment could not be made to the federal treasury. Congress has, for this reason, each year repeated the authorization for advances, the law of 1907 requiring that reimbursement begin on July 1, 1908.[46] The extraordinary expenses are still continuing and it will be necessary to repeat the authorization for advances for the fiscal year 1908-09, and probably for several years longer. In this way the District of Columbia has accumulated an unfunded debt, and on June 30, 1907, owed $3,227,866.28 to the United States.

The Commissioners of the District have repeatedly criticised this plan of advances from year to year from the federal treasury, and have recommended the adoption of a comprehensive and permanent plan for the financing of extraordinary enterprises. The recommendation of the Commissioners involves a distinction between extraordinary and current expenses. According to their plan current expenses are to be defrayed entirely from current revenues; for extraordinary expenditures which have been or may be defrayed in part by means of advances from the federal treasury, repayment with interest should be made from the revenues of the District of Columbia within fifteen years, by means of annual payments.[47] This plan is better than the temporary expedient of annual advances, but involves a wider departure from the sound rule of "pay as you go." The placing of too many items on the side of extraordinary expenses is apt to cause those in charge of a revenue system to lose sight of the necessity of balancing revenues and expenditures.

Funded Debt

When the territorial government of the District of Columbia was organized in 1871 it inherited a debt of more than four million dollars from the corporations which it superseded. An additional debt of four million dollars was almost immediately contracted by the new government through the issuance of bonds for the construction of public improvements. Between 1871 and 1874 there was added to this debt of over eight million dollars a large floating debt contracted without legal authority and to a large extent in direct violation of legal limitations. When the territorial form of government was abolished in 1874 the first and second comptrollers of the United States

[46] 34 Statutes at Large, 1157, March 2, 1907.
[47] House hearings on District of Columbia appropriation bill for 1908, p. 17.

Treasury were appointed a board of audit to examine and audit for settlement all the unfunded or floating debt of the District of Columbia. All claims approved by this board were funded into fifty-year bonds guaranteed by the United States and paying 3.65 per cent interest. The board of audit sat for nearly two years and audited accounts amounting to more than thirteen million dollars. In 1880 the jurisdiction of the Court of Claims was extended to claims still outstanding against the District of Columbia, judgments of the court to be paid in the above-mentioned fifty-year bonds.[48] The total issue of such bonds for claims audited by the board of audit and for claims adjudged good by the Court of Claims was limited to fifteen million dollars, and all but twenty-seven hundred dollars of this amount was issued. In 1878 the funded debt of the District of Columbia amounted to $22,106,650.

When the District finances were put into shape it was found possible to pay interest on the funded debt, and annually to apply some money towards its reduction. The policy was pursued of retiring the shorter term bonds. In 1891, when the twenty-year bonds of 1871 fell due, Congress provided for their redemption by means of ten-year three and one-half per cent bonds redeemable after two years.[49] These short-term bonds have been retired, and the debt of the District of Columbia, $10,607,750 on December 31, 1907, is entirely in the 3.65 per cent fifty-year bonds which reach maturity in 1924.

By act of June 11, 1878, the Treasurer of the United States is ex-officio commissioner of the sinking fund of the District of Columbia, and has charge of all financial operations relating to the funded debt. By an act of March 3, 1879, Congress provided that there should annually be appropriated a sum sufficient to pay the principal of the 3.65 per cent bonds, at maturity, this sum to be annually invested in such bonds at not exceeding their par value, the purchased bonds to be canceled and destroyed. The amount necessary for the payment of interest on the debt and for the sinking fund was estimated at $1,213,947.97, and this amount was annually appropriated from 1882 to 1903. A new calculation convinced the treasury authorities that an annual appropriation of $975,408 would be sufficient to pay interest and sink the outstanding

[48] 21 Statutes at Large, 284, June 16, 1880.
[49] 26 Statutes at Large, 1103.

bonds at maturity, and the smaller amount has been appropriated since 1903. In 1903 also the Treasurer of the United States was empowered to invest the sinking fund in United States bonds when the District bonds could not be purchased at an advantageous price.[50]

The Treasurer of the United States in his report for 1892 has given a good description of the operation of the sinking fund: "All bonds purchased for the sinking fund in accordance with the provisions of the act creating a sinking fund for the 3.65 per cent loan cease to bear interest and are canceled and destroyed in the same manner that United States bonds are canceled and destroyed, but the appropriation being the same amount annually, the sum available for the sinking fund increases from year to year as the interest charge diminishes and is in effect the same as if the bonds purchased were held and the interest collected and applied to the sinking fund."[51]

[50] 32 Statutes at Large, 975.

[51] Fifteenth annual report of the Treasurer of the United States on the sinking fund and funded debt of the District of Columbia, p. 10.